

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Huron Behavioral Health	County Huron
Fiscal Year End 9/30/06	Opinion Date 1/12/07	Date Audit Report Submitted to State 2/28/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☒ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☒ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe) Yellow Book Report	<input checked="" type="checkbox"/>		
Certified Public Accountant (Firm Name) Nietzke & Faupel, P.C.		Telephone Number 989-453-3122	
Street Address 7274 Hartley Street		City Pigeon	State MI
Authorizing CPA Signature		Printed Name Brian Hazard, CPA	Zip 48755
		License Number 1101014007	

HURON BEHAVIORAL HEALTH

HURON COUNTY, MICHIGAN

FINANCIAL REPORT
SEPTEMBER 30, 2006

**HURON BEHAVIORAL HEALTH,
HURON COUNTY, MICHIGAN**

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Nietzke & Faupel, PC

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CPA's On Your Team

INDEPENDENT AUDITOR'S REPORT

To the Members of the Board
Huron Behavioral Health
Bad Axe, Michigan 48413

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Huron Behavioral Health, as of and for the years ended September 30, 2006 and 2005, which collectively comprise Huron Behavioral Health's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Huron Behavioral Health's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Huron Behavioral Health, as of September 30, 2006 and 2005, and the respective changes in financial position and cash flows, where applicable, thereof, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2007, on our consideration of Huron Behavioral Health's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

(Continued)

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Circular 230 Disclosure: To the extent the above contains an opinion on one or more federal tax issues such opinion was not written to be used and cannot be used for the purpose of avoiding penalties.

Report of Independent Auditors (Continued)

The management's discussion and analysis and budgetary comparison information on pages iii through x and 31 and 32, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Nietzke & Faupel, PC
NIETZKE & FAUPEL, P.C.
PIGEON, MICHIGAN

January 12, 2007

HURON BEHAVIORAL HEALTH

Management's Discussion and Analysis

For the year ended September 30, 2006

This section of the Huron Behavioral Health (HBH) annual financial report presents management's discussion and analysis of financial performance for the fiscal year ended September 30, 2006 (FY06). This discussion and analysis is designed to assist the reader in focusing on significant financial issues and activities, and to identify significant changes in financial position and results of operations. Please read this section in conjunction with the auditor's report and with our financial statements, notes to financial statements and supplemental information taken as a whole.

The Michigan Department of Community Health (MDCH) contracts for Medicaid specialty supports and services through designated Prepaid Inpatient Health Plans (PIHPs) in regional geographic areas. Bay-Arenac Behavioral Health Authority (BABHA) is the designated Medicaid PIHP for a region consisting of Arenac, Bay, Huron, Montcalm, Tuscola and Shiawassee counties. HBH is affiliated with and subcontracts for Medicaid funding through BABHA, rather than directly with the state. State General Fund revenue and other state and federal grants and earned contracts are sourced directly from the state.

FINANCIAL HIGHLIGHTS

- Operating results show a surplus of \$180 thousand or 1.9% of revenue compared to a \$334 thousand deficit in the prior year.
- Unrestricted net assets decreased \$849 thousand or 24.6% to \$2.6 million.
- A postemployment benefit liability of \$539 thousand was accrued as a result of choosing to early adopt GASB 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Based on an actuarial study, the unrecorded present value of future vested benefits under GASB 45 is \$5,547,589. This unfunded liability will be amortized over 30 years.
- In addition to funding the above liability, the Board committed to an additional funding of \$1,068,500, being the unrestricted net assets previously Board-designated as a reserve for postemployment benefits.
- The last remaining \$16 thousand of funds restricted for risk management were expended for operations to cover a \$92 thousand State General Fund contract deficit. The Board has chosen to support these contract deficits with local funds.

HURON BEHAVIORAL HEALTH
Management's Discussion and Analysis
For the year ended September 30, 2006

OVERVIEW OF FINANCIAL STATEMENTS

Basic financial statements, in accordance with generally accepted accounting principles (GAAP) according to GASB 34, require the presentation of two types of financial statements. These are authority-wide statements and fund statements.

Authority-wide financial statements include the statement of net assets and the statement of activities. These provide both long-term and short-term information, and present a broad view of the overall financial status in a manner similar to a private sector business. Information presented in these statements is on the accrual basis of accounting. Long-term assets are capitalized and depreciated. Long-term debt is recorded as a liability. Revenues are recorded when "earned" and expenses recorded when "incurred" without regard to the timing of cash receipts or disbursement.

The statement of net assets includes all assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of improving or deteriorating financial position. The statement of activities presents information showing how net assets changed during the year as a result of operating activity.

Fund financial statements contain individual groups of related accounts and are used to report current assets, current liabilities, fund balance, revenues and expenditures for specific activities or funds segregated for legal requirements or other governmental objectives. These are presented in more detail as compared to the authority-wide statements. The fund financial statements are reported on the modified accrual basis of accounting. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized only to the extent that they are normally expected to be paid with current financial resources. Purchased capital assets are reported as expenditures in the year of acquisition. Issuance of debt is recorded as a financial resource with current year payment of principal and interest recorded as expenditure.

Fund financial statements are divided into two categories - governmental fund financial statements and proprietary fund financial statements.

Governmental fund financial statements show how the community mental health supports and services programs were financed in the short term as well as what remains for future spending.

Proprietary fund financial statements show internal service funds reserved for risk management. These funds are held as a self-funded insurance risk reserve to protect against unanticipated current and future financial exposures related to at-risk contracts.

SUMMARY OF NET ASSETS

The following summarizes the assets, liabilities and net assets on an authority-wide basis as of September 30, 2006 and 2005.

HURON BEHAVIORAL HEALTH
Management's Discussion and Analysis
For the year ended September 30, 2006

Summary of Net Assets

As of September 30, 2006 and 2005

(In \$000s)

	<u>2006</u>	<u>2005</u>	<u>Incr/ (Decr)</u>	<u>% Change</u>
<u>Assets</u>				
Current assets	\$ 4,751	\$ 4,246	\$ 505	11.9%
Restricted assets	415	428	(13)	-3.0%
Capital assets	655	531	124	23.3%
Total assets	<u>5,821</u>	<u>5,205</u>	<u>616</u>	11.8%
<u>Liabilities</u>				
Current liabilities	2,160	781	1,379	176.4%
Noncurrent liabilities	415	428	(13)	-2.9%
Long-term debt	139	-	139	-
Total liabilities	<u>2,714</u>	<u>1,209</u>	<u>1,505</u>	124.5%
<u>Net Assets</u>				
Investment in capital assets	508	531	(23)	-4.2%
Restricted for risk management	-	16	(16)	-100.0%
Unrestricted	2,599	3,448	(849)	-24.6%
Total net assets	<u>\$ 3,107</u>	<u>\$ 3,995</u>	<u>\$(888)</u>	-22.2%
<i>Current financial position</i>	<i>2,591</i>	<i>3,465</i>	<i>(873)</i>	<i>-25.2%</i>
<i>Current ratio</i>	<i>2.2</i>	<i>5.4</i>	<i>(3.2)</i>	<i>-59.5%</i>

Current financial position is defined as the excess of current assets over current liabilities. A positive current financial position is an indicator of financial strength and an increase in current financial position is an indicator of improving financial strength. The current financial position is a positive \$2.6 million, a decrease of \$873 thousand or 25.2%, compared to prior year.

The current ratio is a liquidity measure of current assets divided by current liabilities. The current ratio at fiscal year end is 2.2: 1, down from 5.4 in FY05.

Current assets consist of cash and investments, accounts receivable, amounts due from others and prepaid expenses. These are available for current operations and to pay current obligations.

Current liabilities include accounts payable, accrued payroll, related taxes and benefits, amounts due to others and deferred revenue. Current liabilities increased \$1.4 million or 176.4% to \$2.2 million. New to current liabilities for FY06 is \$124 thousand for accrued employee health insurance, \$539 thousand for accrued post employment

HURON BEHAVIORAL HEALTH
Management's Discussion and Analysis
For the year ended September 30, 2006

benefit, and \$1.069 million reflecting the transfer of previously unrestricted, but Board-designated, funds for postemployment benefits.

At year-end, current assets include \$915 thousand due from BABHA for additional Medicaid funding regionally redistributed by the PIHP.

For the current fiscal year, there are no State General Funds left unspent, no lapse, and no amounts to be carried forward.

Restricted assets consist of cash, investments and accrued interest receivable restricted for payment of compensated absences and for risk management. Restricted assets of \$415 thousand decreased \$12 thousand or 2.9%.

Assets restricted for risk management were related to the obligations under the State General Fund (formula funds) risk contract. Effective for FY06, the State amended its State General Fund contract to eliminate the shared risk corridor provisions. Amounts expended under the State General Fund contract exceeded the available funding. The last remaining \$16 thousand of funds restricted for risk management were expended for operations to cover a \$92 thousand State General Fund contract deficit. The Board chose to support these deficits with \$73 thousand of unrestricted local funds.

The remaining \$415 thousand of restricted assets are for payment of compensated absences, including certain deferred compensation amounts.

Capital assets consist of property and equipment having an estimated useful life of more than one year and original cost in excess of \$5 thousand. These assets are stated at their original book value, net of accumulated depreciation.

In fiscal 2006, \$203 thousand was expended for capital acquisitions, including \$161 thousand for acquisition of and improvements to the Genesis home. To acquire the Genesis home, a 15-year mortgage debt was incurred for \$149 thousand.

Depreciation expense was \$76 thousand. Of this amount, \$48 thousand was related to assets acquired prior to October 1, 2003 and was not to be considered for Medicaid and State General Fund cost reconciliation purposes.

The net change in capital assets was an increase of \$124 thousand for the year. When capital expenditures exceed depreciation expense, the net difference represents an increase in capital resources available for the future.

As of year-end, the net book value of depreciable capital assets was 39% of the original book value, compared to 34% at the end of the prior year. This percentage is a measure of the relative age of property and equipment. A low percentage reflects that property and equipment is relatively old.

Noncurrent liabilities consist of the liability for compensated absences that includes vested vacation and sick pay obligations and certain deferred compensation amounts.

HURON BEHAVIORAL HEALTH
Management's Discussion and Analysis
For the year ended September 30, 2006

Long-term debt is the mortgage debt incurred to acquire the Genesis home. The amount is shown net of the current portion. The current portion (amount due within one year) is shown in current liabilities.

Unrestricted net assets at the end of the year are \$2.6 million, a decrease of \$849 thousand or 24.6% for the year. This change includes the reduction attributed to the decision to fund the previously unrestricted, but Board-designated, reserves for post employment benefits. Unrestricted net assets are 45% of total assets, down from 66% at the end of the prior year.

SUMMARY OF ACTIVITIES

The following summarizes the revenue, expenses and change in net assets on an authority-wide basis for the years ended September 30, 2006 and 2005.

Summary of Activities

For the years ended September 30, 2006 and 2005

(In \$000s)

	<u>2006</u>	<u>2005</u>	<u>Incr/ (Decr)</u>	<u>% Change</u>
<u>REVENUE</u>				
Medicaid specialty supports and services	\$ 7,007	\$ 6,151	\$ 856	13.9%
State general fund priority populations	1,070	926	144	15.6%
Adult benefit waiver program	113	113	-	-0.4%
Program service revenue	612	572	40	7.0%
Grants and earned contracts	222	218	4	2.0%
County appropriation	228	228	-	0.0%
Interest income	172	114	58	50.9%
Other local income	11	13	(2)	-15.8%
TOTAL REVENUE	<u>9,435</u>	<u>8,335</u>	<u>1,100</u>	13.2%
<u>EXPENSE</u>				
Contractual providers	1,484	1,521	(37)	-2.4%
Program operations	6,197	5,464	733	13.4%
Managed care administration	165	151	14	9.1%
General & Board administration	1,161	1,041	120	11.5%
Local funds contributed to State	169	169	-	0.0%
Interest	3	-	3	0.0%
Depreciation	76	110	(34)	-30.9%
TOTAL EXPENSE	<u>9,255</u>	<u>8,456</u>	<u>799</u>	9.4%
SURPLUS OF REVENUE OVER EXPENSE	180	(121)	301	
Prior year settlement	-	(213)	213	
CHANGE IN NET ASSETS	<u>\$ 180</u>	<u>\$ (334)</u>	<u>\$ 514</u>	

HURON BEHAVIORAL HEALTH
Management's Discussion and Analysis
For the year ended September 30, 2006

Surplus of revenue over expenses for the current year was \$180 thousand or 1.9% of revenue, an increase of \$514 thousand from the prior year deficit of \$334 thousand.

Total Revenue for the year was \$9.4 million compared to \$8.3 million in the prior year, an increase of \$1.1 million or 13.2% from the prior year.

Medicaid specialty supports and services revenue of \$7.0 million increased \$856 thousand or 13.9% compared to the prior year. This represents 74.3% of revenue compared to 73.8% in the prior year. Medicaid specialty supports and service revenues are provided under a subcontract with BABHA, the Medicaid PIHP for the region. This subcontract is on a net cost not to exceed basis. There were no unspent Medicaid subcontract funds for the fiscal year.

State General Fund priority population revenue (formula funding) of \$1.1 million increased \$144 thousand or 15.6% compared to the prior year. This represents 11.3% of revenue compared to 11.1% in the prior year. This funding is established by MDCH as a part of the legislative appropriation process under the Michigan Mental Health Code and is used to provide supports and services to indigent priority populations, including state facility utilization and other allowable expenses. The current year revenue includes one-time transfers of \$115 thousand from other CMHSPs that will not be available next year. There were no unspent State General Funds, no lapse of funds, and no carry forward for the current fiscal year.

As previously discussed, and for the third consecutive year, the amounts expended under the State General Fund contract exceeded amounts provided by the state. The last remaining \$16 thousand of funds restricted for risk management were expended for operations to cover a \$92 thousand State General Fund contract deficit. The Board chose to support these deficits with \$73 thousand of unrestricted local funds.

Adult Benefit Waiver revenue of \$113 thousand was essentially unchanged compared to the prior year. The cost of supports and services for eligible ABW beneficiaries were \$99 thousand. The resulting surplus of \$14 thousand was available for local use. This is a significant improvement compared to prior years, where last year a \$116 thousand ABW deficit was funded by local funds.

Program service revenue of \$612 thousand includes net collectable charges for services for consumers not covered by Medicaid subcontracts, State General Funds or other earned contract or grant revenue sources. These represent 6.5% of revenue, down from 6.9% in the prior year. These have increased \$40 thousand or 7.0% from the prior year. Program service revenue is a significant source of local funds needed to meet matching fund requirements, cover funding shortfalls in other contracts and programs and contribute to unrestricted fund balance.

Grants and earned contract revenue of \$222 thousand includes revenue sources for which the use of funds is restricted to a specific purpose. These represent 2.4% of revenue down from 2.6% in the prior year. These have increased \$4 thousand or 2.0% from the prior year.

HURON BEHAVIORAL HEALTH
Management's Discussion and Analysis
For the year ended September 30, 2006

County appropriation revenue, interest income and other local fund revenue totaling \$411 thousand are available to meet state matching fund requirements and for other local purposes. These revenue sources constitute 4.4% of revenue and have increased \$56 thousand or 15.8% from the prior year. All of the increase is in interest income.

The County appropriation of \$228 thousand, including \$35 thousand for Seniors' services, was unchanged from the prior year and represented 2.4% of revenue.

Total expense of \$9.3 million has increased \$799 thousand or 9.4% compared to the prior year. Of this increase \$539 thousand is attributable to recognition of the post-employment benefit liability accrued as a result of choosing to early adopt GASB 45. Without this item, total expense would have increased \$260 thousand or 3.1%.

Contractual provider expense of \$1.5 million includes state facility, community hospital, residential, supported employment and transportation providers. These represent 16% of expense, and have decreased \$37 thousand or 2.4% compared to the prior year.

Program operations expense of \$6.2 million includes salaries, benefits and other costs of supports and services programs operated directly by HBH. These represent 67% of expense, and have increased \$733 thousand or 13.4% from the prior year. Of this increase amount, \$461 thousand is attributed the GASB 45 change.

Managed care administration expense of \$165 thousand includes cost related to managed care contracts held by HBH and functions delegated to HBH by the regional Medicaid PIHP. These represent 1.8% of expense, and have increased \$14 thousand or 9.1% over the prior year.

General and Board administration expense of \$1.2 million represents 12.5% of expense, and has increased \$120 thousand or 11.5% over the prior year. Included in this increase is \$68 thousand attributed to the GASB 45 change. Without this change, administrative expense would have increased \$52 thousand or 5%.

BUDGET

The fiscal budget process continues to be challenging due to state budget difficulties, increasing demands for entitlement services in Medicaid and other managed care contract programs, and evolving managed care service and administrative responsibilities. Unlike other local government budgets, over 87% of the HBH budget consists of managed care contracts with some element of insurance risk. These are essentially entitled supports and services for eligible beneficiaries or for specialized services for uninsured priority populations. As such a majority of the expense is non-discretionary.

HURON BEHAVIORAL HEALTH
Management's Discussion and Analysis
For the year ended September 30, 2006

FUTURE OUTLOOK

The state of Michigan continues its struggle to balance budget deficits. Federal deficits are placing additional pressures on Medicaid funding. The effect of these on future funding for community mental health and specialty supports and services is unknown, but the outlook does not look favorable.

Management expects revenues to be flat at best. Support and service demand is expected to increase together with inflationary cost pressures.

Of particular concern is the State General Fund Formula Funding for priority populations under the Mental Health Code. Risk reserves have been exhausted and other local funds have been expended for three consecutive years to cover under funded needs. Management will continue to concentrate its efforts to minimize State General Fund and other contract deficits that demand the use of local funds.

While the financial position of HBH continues to be healthy, balancing the priorities and budgets is increasingly more difficult.

* * * * *

As always, questions, comments and suggestions are welcomed from interested parties and the general public. These can be directed to management.

BASIC FINANCIAL STATEMENTS

**HURON BEHAVIORAL HEALTH,
HURON COUNTY, MICHIGAN**

**STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006 AND 2005**

<u>ASSETS</u>	Governmental Activities	
	<u>2006</u>	<u>2005</u>
CURRENT ASSETS		
Cash and investments	\$ 3,570,686	\$ 3,877,530
Accounts receivable, net	73,890	79,379
Due from other governmental units	1,080,229	85,273
Prepaid expenses	7,723	169,016
TOTAL CURRENT ASSETS	4,732,528	4,211,198
NONCURRENT ASSETS		
Cash - restricted	434,098	462,055
Capital assets, land	81,192	67,192
Capital assets - depreciable, net	573,621	463,787
TOTAL NONCURRENT ASSETS	1,088,911	993,034
TOTAL ASSETS	\$ 5,821,439	\$ 5,204,232
<u>LIABILITIES</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 102,933	\$ 119,889
Due to other governmental units	163,044	468,456
Accrued payroll	152,768	180,860
Accrued payroll taxes and benefits	2,460	12,277
Accrued health insurance	124,392	
Post employment benefit liability	1,607,669	
Current portion long term debt	7,235	
TOTAL CURRENT LIABILITIES	2,160,501	781,482
NONCURRENT LIABILITIES		
Severance pay	62,817	75,200
Accrued compensated absences	352,443	352,506
Notes payable, net of current	139,089	
TOTAL NONCURRENT LIABILITIES	554,349	427,706
TOTAL LIABILITIES	2,714,850	1,209,188
<u>NET ASSETS</u>		
Investment in capital assets, net of related debt	508,488	530,979
Restricted for risk management		16,284
Unrestricted	2,598,101	3,447,781
TOTAL NET ASSETS	\$ 3,106,589	\$ 3,995,044

The accompanying notes are an integral part
of the financial statements.

**HURON BEHAVIORAL HEALTH,
HURON COUNTY, MICHIGAN**

**STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005**

Functions	Expenses	Program Revenue		Net (Expense)	
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Assets	
				<u>2006</u>	<u>2005</u>
Governmental Activities					
Health & Welfare - Mental Health	<u>\$ 9,254,516</u>	<u>\$ 8,893,178</u>	<u>\$ 130,040</u>	<u>\$ (231,298)</u>	<u>\$ (688,918)</u>
General revenues					
Grants and contributions not restricted to specific programs				234,368	234,368
Unrestricted investment earnings				171,492	112,066
Restricted investment earnings				715	2,080
Miscellaneous revenues				4,768	6,724
Total general revenues and contributions				<u>411,343</u>	<u>355,238</u>
Change in net assets				<u>180,045</u>	<u>(333,680)</u>
Net assets - beginning of year				3,995,044	4,328,724
Change in reserved fund balance for employee benefits				(1,068,500)	
Net assets - end of year				<u>\$ 3,106,589</u>	<u>\$ 3,995,044</u>

FUND FINANCIAL STATEMENTS

**HURON BEHAVIORAL HEALTH,
HURON COUNTY, MICHIGAN
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2006 AND 2005**

	GENERAL FUND	
<u>ASSETS</u>	<u>2006</u>	<u>2005</u>
Cash and investments	\$ 3,570,686	\$ 3,877,530
Accounts receivable:		
Client Services	73,890	79,379
Due from State of Michigan	102,612	28,210
Due from county	57,063	57,063
Due from other governments	920,554	
Due from internal service fund	18,838	15,661
Prepaid expenses	7,723	169,016
Cash - restricted	415,260	427,706
TOTAL ASSETS	<u>\$ 5,166,626</u>	<u>\$ 4,654,565</u>
 LIABILITIES:		
Accounts payable	\$ 102,933	\$ 119,889
Due to other governmental units	163,044	466,052
Accrued payroll	152,768	180,860
Accrued payroll taxes and benefits	2,460	12,277
Accrued health insurance	124,392	
Post employment benefit liability	1,607,669	
TOTAL LIABILITIES	<u>2,153,266</u>	<u>779,078</u>
 FUND BALANCES:		
Reserved - prepaid items	7,723	169,016
Reserved - vested employee benefits		1,068,500
Reserved - compensated absences	352,443	352,506
Reserved - severance pay	62,817	75,200
Unreserved	2,590,377	2,210,265
TOTAL FUND BALANCES	<u>3,013,360</u>	<u>3,875,487</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u>\$ 5,166,626</u>	 <u>\$ 4,654,565</u>

The accompanying notes are an integral part
of the financial statements.

**HURON BEHAVIORAL HEALTH,
HURON COUNTY, MICHIGAN**

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
Total fund balance - governmental funds	\$ 3,013,360	\$ 3,875,487
Amounts reported for governmental activities in the statement of activities are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Add: Capital assets	1,566,084	1,432,140
Deduct: Accumulated depreciation	(911,271)	(901,161)
An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		
Add: Net assets of governmental activities accounted for in the internal service fund		16,284
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
Deduct: Severance pay	(62,817)	(75,200)
Deduct: Compensated absences	(352,443)	(352,506)
Long-term liabilities, including notes payable, are not due and payable in the current period and, therefore, are not reported in the funds.		
	(146,324)	
Net assets of governmental activities	<u>\$ 3,106,589</u>	<u>\$ 3,995,044</u>

**HURON BEHAVIORAL HEALTH,
HURON COUNTY, MICHIGAN**

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005**

REVENUES:	<u>2006</u>	<u>2005</u>
State grants		
State General Fund DCH Contract	\$ 1,069,517	\$ 905,099
Adult benefit waiver	112,809	113,562
MI Child capitation	6,804	6,720
Title XX replacement	6,118	6,118
Other state grants	<u>16,652</u>	<u>16,652</u>
Total state grants	<u>1,211,900</u>	<u>1,048,151</u>
Federal grants		
Federal block grants	29,503	36,655
PAS / ARR Grant	<u>83,885</u>	<u>75,914</u>
Total federal grants	<u>113,388</u>	<u>112,569</u>
Contributions - Local units		
County appropriation	193,250	193,250
Senior grant	<u>35,000</u>	<u>35,000</u>
Total contributions - Local units	<u>228,250</u>	<u>228,250</u>
Charges for services		
Medicaid specialty managed care capitation	7,007,232	5,958,952
Medicaid fee for service	65,271	55,443
Earned contracts	85,036	81,659
Client and third party pay	<u>546,508</u>	<u>516,504</u>
Total charges for services	<u>7,704,047</u>	<u>6,612,558</u>
Interest income	171,492	112,066
Other revenue	4,768	6,724
TOTAL REVENUES	<u>9,433,845</u>	<u>8,120,318</u>

**HURON BEHAVIORAL HEALTH,
HURON COUNTY, MICHIGAN**

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005**

EXPENDITURES:	<u>2006</u>	<u>2005</u>
Health & Welfare - Mental Health		
Personnel costs:		
Salaries & wages	3,504,631	3,590,691
Fringe benefits	2,199,698	1,515,902
Board per diem	11,690	11,200
Total personnel costs	<u>5,716,019</u>	<u>5,117,793</u>
 Operating expenditures:		
Grant specific costs	46,155	19,745
Books & periodicals	1,145	1,228
Building rental	177,349	182,862
Consumer food, clothing	43,797	41,569
Contract residential	428,991	516,980
Contractual - other	367,097	295,111
Dues & subscriptions	8,753	8,034
Inpatient - private	184,500	186,500
Inpatient - state	30,621	96,169
Insurance & bonds	52,089	64,351
Medical	470,555	265,688
Other operating expense	228,651	230,111
Office supplies & expense	5,051	
Printing, postage & advertising	52,977	40,692
Regional manage care administration	33,368	36,929
Repairs & maintenance	164,764	138,415
Supplies	86,653	100,534
Telephone	66,364	62,762
Travel	116,823	101,201
Utilities	72,877	62,442
Work activity	661,476	586,160
Local funds paid to PIHP	168,799	168,799
Total operating expenditures	<u>3,468,855</u>	<u>3,206,282</u>

**HURON BEHAVIORAL HEALTH,
HURON COUNTY, MICHIGAN**

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
Capital Outlay	203,034	103,410
Debt Retirement	5,804	
TOTAL EXPENDITURES	<u>9,393,712</u>	<u>8,427,485</u>
OTHER FINANCING SOURCES:		
Operating transfer in	16,999	19,542
Proceeds from note payable	<u>149,241</u>	
TOTAL OTHER FINANCING SOURCES	<u>166,240</u>	<u>19,542</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES	<u>206,373</u>	<u>(287,625)</u>
FUND BALANCE, OCTOBER 1	3,875,487	4,163,112
Change in reserved fund balance for employee benefits	(1,068,500)	
FUND BALANCE - SEPTEMBER 30	<u><u>\$ 3,013,360</u></u>	<u><u>\$ 3,875,487</u></u>

**HURON BEHAVIORAL HEALTH,
HURON COUNTY, MICHIGAN**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2006 AND 2005**

	2006	2005
Net change in fund balances - total governmental funds	\$ 206,373	\$ (287,625)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated lives as depreciation expense.		
Add: Capital outlay	203,034	103,410
Deduct: Net book value of disposals	(3,056)	(6,191)
Deduct: Depreciation expense	(76,143)	(110,168)
Loan proceeds provide current financial resources to governmental funds, while the repayment of principal on debt is an expenditure in the governmental funds. Neither transaction, however, has any effect on net assets. This is the amount by which debt issued exceeded repayments.		
	(146,324)	
An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The net revenue of the fund attributable to those funds is reported with governmental activities.		
Add: Interest income from governmental internal service fund	715	2,080
Deduct: Operating transfer from internal service fund to general fund	(16,999)	(19,542)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.		
Add: Decrease (Increase) in accrual for severance pay	12,383	(13,720)
Add: Decrease (Increase) in accrual for compensated absences	63	(1,923)
Change in net assets of governmental activities	<u>\$ 180,045</u>	<u>\$ (333,680)</u>

**HURON BEHAVIORAL HEALTH,
HURON COUNTY, MICHIGAN**

**STATEMENT OF FUND NET ASSETS
PROPRIETARY FUND
SEPTEMBER 30, 2006 AND 2005**

	<u>INTERNAL SERVICE FUND</u>	
	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Cash and investments	\$ 18,838	\$ 34,349
TOTAL ASSETS	<u>\$ 18,838</u>	<u>\$ 34,349</u>
 <u>LIABILITIES</u>		
Due to governmental fund	\$ 18,838	\$ 15,661
Due to affiliate	-	2,404
TOTAL LIABILITIES	<u>18,838</u>	<u>18,065</u>
 <u>NET ASSETS</u>		
Restricted for risk management	-	16,284
TOTAL NET ASSETS	<u>-</u>	<u>16,284</u>
 TOTAL LIABILITIES AND NET ASSETS	<u>\$ 18,838</u>	<u>\$ 34,349</u>

**HURON BEHAVIORAL HEALTH,
HURON COUNTY, MICHIGAN**

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005**

	<u>INTERNAL SERVICE FUND</u>	
	<u>2006</u>	<u>2005</u>
NON-OPERATING REVENUES:		
Interest income	\$ 715	\$ 2,080
	<hr/>	<hr/>
INCOME BEFORE TRANSFERS	715	2,080
	<hr/>	<hr/>
OTHER FINANCING USES:		
Transfers to governmental fund:		
Use of funds to finance risk	(16,999)	(19,542)
	<hr/>	<hr/>
TOTAL OTHER FINANCING USES	(16,999)	(19,542)
	<hr/>	<hr/>
CHANGE IN NET ASSETS	(16,284)	(17,462)
	<hr/>	<hr/>
NET ASSETS - OCTOBER 1	16,284	33,746
	<hr/>	<hr/>
NET ASSETS - SEPTEMBER 30	\$ -	\$ 16,284
	<hr/>	<hr/>

The accompanying notes are an integral part of the financial statements.

**HURON BEHAVIORAL HEALTH,
HURON COUNTY, MICHIGAN**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005**

	INTERNAL SERVICE FUND	
	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Adjustment to reconcile net income to net cash provided by operating activities:		
Increase (Decrease) in:		
Due to governmental fund	\$ 3,177	\$ (68,962)
Due to affiliate	(2,404)	
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>773</u>	<u>(68,962)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfer to governmental fund	(16,999)	(19,542)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	715	2,080
NET (DECREASE) IN CASH	<u>(15,511)</u>	<u>(86,424)</u>
CASH - BEGINNING OF THE YEAR	34,349	120,773
CASH - END OF THE YEAR	<u>\$ 18,838</u>	<u>\$ 34,349</u>

**HURON BEHAVIORAL HEALTH,
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2006 AND 2005**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accompanying financial statements of Huron Behavioral Health have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). In June of 1999, the GASB issued Statement 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. This Statement established new financial reporting requirements for state and local governments throughout the United States. They require new information and restructure much of the information that governments have presented in the past.

Huron Behavioral Health has adopted the provisions of GASB Statement 34 for its fiscal year ended September 30, 2003. With the implementation of GASB 34, the Authority has prepared required supplementary information titled *Management's Discussion and Analysis* which precedes the basic financial statements.

Reporting Entity

Huron Behavioral Health is an Authority that operates under the provisions of Act 258 – Public Acts of 1974 (the Michigan Mental Health Code), as amended. The Authority arranges for or provides supports and services for persons with developmental disability, adults with severe of mental illness, children with serious emotional disturbance, and individuals with addictive disorder and substance abuse. These supports and services are made available to residents of the County of Huron who meet eligibility and other criteria. As the community of members, assuring local access, organizing and integrating the provision of services, coordinating care, implementing public policy, ensuring interagency collaboration, and preserving the public interest.

The accounting policies of Huron Behavioral Health conform to accounting principles generally accepted in the United States of America as applicable to governmental units.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Authority (GASB) Statement No. 14 "The Financial Reporting Entity," these financial statements present all of the Authority's funds. The criteria established by the GASB for determining the reporting entity include oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the activities of Huron Behavioral Health. *Governmental activities* normally are supported by intergovernmental revenues.

**HURON BEHAVIORAL HEALTH,
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2006 AND 2005**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)
Government-Wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is Huron Behavioral Health's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor have been met.

Fund Financial Statements – The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, Huron Behavioral Health considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

An exception to the "60 day" rule is the recognition of certain patient fee revenues and the related receivables. The Authority has elected to recognize these revenues on the accrual basis of accounting. The difference between the accrual basis of accounting and modified accrual basis of accounting for these revenues is not material to the financial statements.

Modifications to the accrual basis of accounting include:

- Employees' vested annual leave is recorded as expenditures when utilized. The amount of accumulated annual leave unpaid at September 30, 2006, has been reported only in the government-wide financial statements.
- Interest on general long-term obligations is recognized when paid.
- Debt service expenditures and claims and judgments are recorded only when payment is due.

(Continued)

**HURON BEHAVIORAL HEALTH,
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2006 AND 2005**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Proprietary Fund Financial Statements – The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the internal service fund are charges to other funds for insurance services. Operating expenses for internal service funds include the cost of claims, administration and reinsurance. Any revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Fund Accounting

The financial activities of Huron Behavioral Health are recorded in individual funds, each of which is deemed to be a separate accounting entity. Huron Behavioral Health uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

The financial activities of Huron Behavioral Health that are reported in the accompanying financial statements have been classified into the following major governmental and proprietary funds.

Governmental Funds

General Fund – This fund is Huron Behavioral Health's primary operating fund. It accounts for all the financial resources except those required to be accounted for in other funds.

Proprietary Funds

Internal Service Fund – This fund represents amounts restricted for risk management and set aside to fund the net uninsured exposure of potential shortfalls of DCH risk contract revenues.

**HURON BEHAVIORAL HEALTH,
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2006 AND 2005**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Budgetary Data

Huron Behavioral Health's general fund budget is under formal budgetary control and follows both Huron Behavioral Health's and Michigan Department of Community Health's annual budget process in establishing the budgetary data presented in the financial statements. The annual fiscal budget is adopted on a basis consistent with generally accepted accounting principles and the requirements of the Michigan Department of Community Health.

Cash and Cash Equivalents

In accordance with Michigan Compiled Laws, Huron Behavioral Health is authorized to invest in obligations of the U.S. Treasury including its agencies and instrumentalities, certificates of deposit, savings accounts, deposit accounts or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (FDIC), commercial paper rated in the three (3) highest classifications of two rating services, United States government or federal agency obligation repurchase agreements, and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Huron Behavioral Health's deposits are in accordance with statutory authority.

A specific amount of cash has been restricted for future payment of the compensated absences, since it has been charged to the Department of Community Health. Huron Behavioral Health has established a separate cash account to monitor this future liability.

Receivables

Uncollectible accounts are provided for using the allowance method based on historical experience and management's evaluation of outstanding accounts receivable. Based on these factors, there is an allowance for uncollectible accounts of \$54,000 and \$31,000 at September 30, 2006 and 2005, respectively.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in both government-wide and fund financial statements.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**HURON BEHAVIORAL HEALTH,
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2006 AND 2005**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Capital Assets

Capital assets, which include property, plant and equipment are reported in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Capital assets of Huron Behavioral Health are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land	N/A
Buildings and Improvements	20 – 40
Equipment and Furnishings	5 – 10
Computers	3
Vehicles	5

Incurred But Not Reported Claims Liability

The amounts recorded in current liabilities include amounts for incurred inpatient, residential and community provider claims liability based on management's estimate. The Authority may not be billed for these until several months after the date of service. Therefore, the liability is not liquidated within the normal 60-day period after year-end. Also, the actual cost may vary from the estimated amount for a variety of reasons that include, but are not limited to, retroactive consumer eligibility or cost recovery from other third party payers.

Deferred Revenue

Deferred revenues arise when resources are received by the Authority before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Authority has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

**HURON BEHAVIORAL HEALTH,
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2006 AND 2005**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Compensated Absences

Huron Behavioral Health's policy allows full time employees to accumulate vacation time and sick time, at various rates, depending on the employee's length of service with Huron Behavioral Health. The governmental fund financial statements record expenditures when employees are paid for these compensated absences. The government-wide financial statements record the expense and the related liability when these compensated absences are earned by employees.

Governmental Fund – Fund Balance Reserves and Designations

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditure or (2) legally segregated for a specific future use. The reserves for related assets such as prepaid expenses are examples of the former. Reserves for compensated absences are examples of the later.

By resolution of the Authority's board, reserved fund balances in the amount of \$422,983 and \$1,665,222 as of September 30, 2006 and 2005 were established to provide for payment of future liabilities related to the following:

	<u>2006</u>	<u>2005</u>
Prepaid expenses	\$ 7,723	\$ 169,016
Compensated absences	352,443	352,506
Retirement and other post-employment benefits		1,068,500
Severance pay	<u>62,817</u>	<u>75,200</u>
Total	<u>\$422,983</u>	<u>\$1,665,222</u>

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Budgetary Information

As set forth by State law, the CMH Board adopts an annual budget on a government wide basis. The annual budget is adopted on the full accrual basis of accounting in accordance with GASB Statement 34. The Executive Director is authorized to transfer budgeted amounts within departments; however, any revisions that alter the total expenditures must be approved by the CMH Board. For the year ended September 30, 2006, the original budgeted expenditures amounted to \$8,334,411. During the fiscal year ended September 30, 2006, the Board approved budget amendments that increased the budgeted expenditures to \$8,627,452. The government wide budget is presented in the Statement of Revenue and Expenses - Budget and Actual. All annual appropriations lapse at the end of the fiscal year.

Excess of Expenditures Over Appropriations

Budget control has been established by the CMH Board at the level of the following expenditure categories: Contractual providers, Program operations, Managed care administration, General and Board administration, Local funds contribution, and Depreciation. During the year ended September 30, 2006, Huron Behavioral Health incurred expenditures in the following categories which were in excess of the budgeted amounts:

(Continued)

**HURON BEHAVIORAL HEALTH,
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2006 AND 2005**

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY: (CONTINUED)

Excess of Expenditures Over Appropriations (Continued)

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
Program operations	\$5,701,662	\$6,197,203	\$(495,541)
Managed care administration	140,250	164,752	(24,502)
General & board administration	980,210	1,161,228	(181,018)

The primary reason for the budget variances was due to the expense related to the Authority's post employment benefit costs due to the decision to adopt GASB 45 after the final budget was approved for the year. The post employment benefit expense recognized for the year ended September 30, 2006 was based on an actuarial study performed in 2004 and amounted to \$601,543.

NOTE 3 - CASH AND INVESTMENTS:

As of September 30, 2006 and 2005, the Authority's cash balances are as follows:

	<u>2006</u>	<u>2005</u>
Carrying amount of cash and investments		
Unrestricted – General Fund	\$3,570,686	\$3,877,530
Restricted – General Fund	415,260	427,706
Internal Service Fund	18,838	34,349
Total carrying amount of cash and investments	<u>\$4,004,784</u>	<u>\$4,339,585</u>

The bank balances of the cash and investments are classified as follows:

	<u>2006</u>	<u>2005</u>
Insured by FDIC	\$ 807,983	\$ 876,307
Uninsured and uncollateralized	2,132,513	3,209,035
Cash management account backed by government securities	1,125,561	225,869
Total bank balance of cash and investments	<u>\$4,066,057</u>	<u>\$4,311,211</u>

Restricted cash balances have been set aside for the following purposes:

	<u>2006</u>	<u>2005</u>
Payment of compensated absences	\$352,443	352,506
Payment of severance pay	62,817	75,200
Medicaid risk funding	18,838	34,349
Total restricted cash	<u>\$434,098</u>	<u>\$462,055</u>

As of September 30, 2006, the Authority had the following investments.

<u>INVESTMENT TYPE</u>	<u>FAIR VALUE</u>	<u>WEIGHTED AVERAGE MATURITY (YEARS)</u>	<u>%</u>
Government Cash Investment Fund – Comerica Bank	\$1,125,561	0.0027	100%
Portfolio weighted average maturity		<u>0.0027</u>	
1 day maturity equals 0.0027, one year equals 1.00			

(Continued)

**HURON BEHAVIORAL HEALTH,
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2006 AND 2005**

NOTE 3 - CASH AND INVESTMENTS: (CONTINUED)

The Authority voluntarily invests certain excess funds in external pooled investment funds which included cash management funds. One of the pooled investment funds utilized by the Authority is the Government Cash Investment Fund. The Government Cash Investment Fund is an external pooled investment fund of "qualified" investments for Michigan local units of government. The Government Cash Investment Fund reports as of September 30, 2006, the fair value of the Authority's investments is the same as the value of the pool shares.

Interest rate risk. In accordance with its investment policy, the Authority will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Authority's cash requirements.

Credit risk. The Authority will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities authorized by Board policy and state law.

Concentration of credit risk. The Authority will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The Authority will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the Authority will do business.

Foreign currency risk. The Authority is not authorized to invest in investments which have this type of risk.

NOTE 4 – DUE FROM OTHER GOVERNMENTAL UNITS:

Due from other governmental units as of September 30, consists of the following:

	<u>2006</u>	<u>2005</u>
State of Michigan	\$ 102,612	\$28,210
County of Huron	57,063	57,063
Bay Arenac Behavioral Health	920,116	
Other CMHs	438	
Total	<u>\$1,080,229</u>	<u>\$85,273</u>

(Continued)

**HURON BEHAVIORAL HEALTH,
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2006 AND 2005**

NOTE 5 – CHANGES IN CAPITAL ASSETS:

The following is a summary of the changes in the depreciable capital assets of Huron Behavioral Health for the year ended September 30, 2006:

	BALANCE SEPTEMBER 30, 2005	<u>ADDITIONS</u>	<u>REDUCTIONS</u>	BALANCE SEPTEMBER 30, 2006
Office equipment	\$ 258,844		\$ 2,420	\$ 256,424
Computer equipment	185,451		25,819	159,632
Transportation equipment	647,814	\$ 35,625	40,851	642,588
Building improvement	66,264	16,810		83,074
Land Improvement	13,075			13,075
Land	67,192	14,000		81,192
Buildings	193,500	136,599		330,099
TOTAL CAPITAL ASSETS	<u>\$1,432,140</u>	<u>\$203,034</u>	<u>\$69,090</u>	<u>\$1,566,084</u>

ACCUMULATED DEPRECIATION

	BALANCE SEPTEMBER 30, 2005	DEPRECIATION EXPENSE	<u>DISPOSALS</u>	BALANCE SEPTEMBER 30, 2006	NET BOOK VALUE
Office equipment	\$163,042	\$21,068	\$ 2,178	\$181,932	\$ 74,492
Computer equipment	167,681	7,386	25,004	150,063	9,569
Transportation equipment	543,659	38,933	38,851	543,741	98,847
Building improvement	4,076	1,815		5,891	77,183
Land Improvement	654	327		981	12,094
Land					81,192
Buildings	22,049	6,614		28,663	301,436
TOTAL	<u>\$901,161</u>	<u>\$76,143</u>	<u>\$66,033</u>	<u>\$911,271</u>	<u>\$654,813</u>

NOTE 6 – DUE TO OTHER GOVERNMENTAL UNITS:

Due to other governmental units as of September 30, consist of the following:

	<u>2006</u>	<u>2005</u>
State of Michigan	\$ 30,128	\$ 20,448
State of Michigan – Inpatient Care	132,916	50,697
Bay-Arenac Behavioral Health		397,311
Total	<u>\$163,044</u>	<u>\$468,456</u>

NOTE 7 – ACCRUED WAGES AND PAYROLL LIABILITIES:

This liability represents amounts paid to employees during October that were earned during September. Also included are recurring payroll liabilities that are incurred on a monthly basis.

**HURON BEHAVIORAL HEALTH,
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2006 AND 2005**

NOTE 8 – LONG-TERM DEBT:

Authority policy allows full time employees to accumulate annual leave time at various rates, depending on the employee's length of service with Huron Behavioral Health. Amounts accumulated up to a maximum of 30 days are to be paid to the employee and recognized as an expense either when annual leave time is used, or at the discretion of Huron Behavioral Health, upon termination of employment.

Employees also accumulate sick leave time at various rates, depending on the date of hire. Amounts accumulated up to a maximum of 100 days are to be paid to the employee and recognized as an expense either when sick leave time is used, or at the discretion of Huron Behavioral Health, upon termination of employment.

As of September 30, 2006 and 2005, this liability was \$352,443 and \$352,506, respectively.

In accordance with the Mental Health Code, the Authority issued a mortgage with a local bank in the amount of \$149,241. The proceeds of the mortgage were used to purchase a building that is used in the Authority's residential care services. The terms of the mortgage call for monthly payments in the amount of \$1,161 including interest at an annual rate of 4.68%. The maturity date of the mortgage is March 28, 2021 and is collateralized by the building. Interest expense on the mortgage for the year ended September 30, 2006 amounted to \$2,888.

The following is a summary of the changes in long-term debt of Huron Behavioral Health for the year ended September 30, 2006:

	BALANCE SEPTEMBER 30, 2005	ADDITIONS	REDUCTIONS	BALANCE SEPTEMBER 30, 2006
Accrued compensated absences	\$352,506	\$32,025	\$32,088	\$352,443
Employee severance pay	75,200	2,278	14,661	62,817
Note payable		<u>149,241</u>	<u>2,917</u>	<u>146,324</u>
TOTALS	<u>\$427,706</u>	<u>\$183,544</u>	<u>\$49,666</u>	<u>\$561,584</u>

Annual debt service requirements to maturity for the mortgage are as follows:

Years Ending September 30,	Principal	Interest	Total
2007	\$ 7,235	\$ 6,694	\$ 13,929
2008	7,581	6,348	13,929
2009	7,944	5,985	13,929
2010	8,324	5,605	13,929
2011	8,722	5,207	13,929
2012 – 2016	50,277	19,370	69,647
2017 – 2021	<u>56,241</u>	<u>6,219</u>	<u>62,460</u>
Totals	<u>\$146,324</u>	<u>\$55,428</u>	<u>\$201,752</u>

**HURON BEHAVIORAL HEALTH,
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2006 AND 2005**

NOTE 9 – UNEMPLOYMENT COMPENSATION:

Huron Behavioral Health is a reimbursing employer for purposes of unemployment insurance claims against the employer. Huron Behavioral Health reimburses the State of Michigan for all benefits charged against it in the event of termination of employment and subsequent claims of its employees. Because an estimate cannot be made, the contingent liability for unemployment insurance claims is not recognized in the accompanying financial statements. This expense is recognized as incurred.

NOTE 10 – OPERATING LEASES:

On January 1, 2006, the Authority entered into a lease agreement with the Huron County Board of Commissioners to lease office space. The terms of the lease require monthly payments of \$11,597 for a period of one year beginning January 1, 2006. The Authority is responsible for all expenses of operation including utilities and maintenance. Future minimum lease payments at September 30, 2006 are \$34,791.

The lease further provides for cancellation by the Authority if the purpose for which the lease was entered into no longer exists due to executive, legislative or local government order or insufficient allocation of funds for this location by the Michigan State Department of Community Health and/or the Huron County Board of Commissioners.

The Authority entered into various lease arrangements for housing residential and day activity facilities. The terms of the leases require monthly payments amounting to \$3,641. The Authority is responsible for all expenses of operation including utilities and maintenance.

The leases also provide for an optional renewal term with monthly lease payments to be determined based on an agreed upon formula. The leases further provide for cancellation by the Authority in the event funding is terminated, reduced or licensing is withheld.

NOTE 11 – RETIREMENT SYSTEM:

The Authority participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all full-time employees. The System provides retirement, disability and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 447 N. Canal Road, Lansing, MI 48917.

Under provisions of state statutes, all full-time employees must contribute 3% of the first \$4,200 of annual compensation and 5% of the portion over \$4,200 to the pension plan. In addition, the Authority must provide annual contributions sufficient to satisfy the actuarially determined contribution requirements as mandated by state statutes.

**HURON BEHAVIORAL HEALTH,
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2006 AND 2005**

NOTE 11 – RETIREMENT SYSTEM: (CONTINUED)

For the years ended September 30, 2006 and 2005, the Authority's annual pension cost of \$238,864 and \$233,468 for the plan was equal to the Authority's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005 and 2004, using the entry actual age cost method. Significant actuarial assumptions used include (a) an 8% investment rate of return, (b) projected salary increases of 4.5% per year and (c) 2.5% per year cost of living adjustments. Both (a) and (b) include an inflation component of 3%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis.

Three year trend information:

	Fiscal year ended December 31,		
	<u>2003</u>	<u>2004</u>	<u>2005</u>
Actuarial value of assets	\$43,052,480	\$46,099,379	\$48,919,540
Actuarial Accrued Liability	49,259,740	52,599,796	55,308,476
Unfunded AAL	6,207,260	6,500,417	6,388,936
Funded ratio	87%	88%	88%
Covered payroll	10,901,020	11,015,228	10,913,202
UAAL as a percentage of covered payroll	57%	59%	59%

NOTE 12- DEFERRED COMPENSATION:

Employees of Huron Behavioral Health may participate in a deferred compensation plan adopted under the provisions of Internal Revenue Code Section 457 (Deferred Compensation Plans With Respect to Service For State and Local Governments).

The deferred compensation plan is available to all employees of the Authority. Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death or unforeseeable emergency.

The deferred compensation plan is administered by the Michigan Association of Counties. Under the terms of an IRC Section 457 deferred compensation plan, all deferred compensation and income attributable to the investment of the deferred compensation amounts held by the Administration, until paid or made available to the employees or beneficiaries, are the property of the Authority subject only to the claims of the Authority's general creditors. In addition, the participants in the plan have rights equal to those of the general creditors of the Authority and each participant's rights are equal to his or her share of the fair market value of the plan assets. The Authority believes that it is unlikely that plan assets will be needed to satisfy claims of general creditors that might arise.

**HURON BEHAVIORAL HEALTH,
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2006 AND 2005**

NOTE 13 – OTHER POST-EMPLOYMENT BENEFITS:

Plan Description. The Authority's defined benefit postemployment healthcare plan, Huron Behavioral Health Postemployment Healthcare Plan (HBHPHP), provides medical benefits to eligible retired employees and their beneficiaries. HBHPHP is affiliated with the Michigan Municipal Employees' Retirement System Retiree Health Funding Vehicle (RHFV), an agent multiple-employer postemployment healthcare plan administered by the MMERS Retirement System. The Statutes of the State of Michigan assigns the authority to establish and amend the benefit provisions of the plans that participate in RHFV to the respective employer entities; for HBHPHP, that authority rests with the Huron Behavioral Health Board. The MMERS Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for RHFV. That report may be obtained by writing to MMERS Retirement System, 1134 Municipal Way, Lansing, MI 48917, or by calling 1-517-703-9030.

Funding Policy. The contribution requirements of plan members and the authority are established and may be amended by the MMERS board of trustees. HBHPHP members receiving benefits contribute based on their years of service. Employees with at least 10 years of full time service and age 55 or older are required to contribute 50% of their health insurance premiums; employees with at least 15 years of full time service and age 55 or older are required to contribute 25% of their health insurance premiums; and employees with at least 20 years of full time service and age 55 or older, or that have at least 10 years of full time service and age 60 or older are not required to contribute to the payment of their health insurance premiums. Only employees hired prior to January 1, 1999 are eligible to receive the post employment health care benefits.

The Authority is required to contribute the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC rate is 34.12 percent of annual covered payroll.

Annual OPEB Cost. For 2006, the Authority's annual OPEB cost (expense) of \$601,543 for HBHPHP was equal to the ARC. The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2006 was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
9/30/06	\$601,543	10.4%	\$539,169

Funded Status and Funding Progress. The funded status of the plan as of December 31, 2004, was as follows:

Actuarial accrued liability (AAL)	\$5,547,589
Actuarial value of plan assets	0
Unfunded actuarial accrued liability (UAAL)	<u>\$5,547,589</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$1,763,106
UAAL as a percentage of covered payroll	314.7%

(Continued)

**HURON BEHAVIORAL HEALTH,
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2006 AND 2005**

NOTE 13 – OTHER POST-EMPLOYMENT BENEFITS: (CONTINUED)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2004, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 8.0 percent investment rate of return (net of administrative expenses) an annual healthcare cost trend rate of 12 percent initially, reduced by decrements to an ultimate rate of 4.5 percent after eight years. Both include a 4.5 percent inflation assumption. The actuarial value of HBHPHP assets was determined using techniques that spread the effects of short-term volatility in the market value of investments. HBHPHP's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2004, was thirty years.

NOTE 14 – RISK MANAGEMENT:

General Liability:

Huron Behavioral Health participates in the Michigan Municipal Risk Management Authority, which is a public entity risk pool, for the coverage of significant losses due to its general liability. The participation in the pool constitutes transfer of the risk for significant losses to the pool with a liability limit of \$10 million. The Authority is required to pay annual premiums to the Michigan Municipal Risk Management Authority for the liability coverage. The Authority reduced their liability insurance coverage by \$5 million and settlement amounts have not exceeded insurance coverage for the current year or the three prior years. The Authority also purchased commercial insurance coverage for losses related to their property, automobiles and commercial general liability.

Workers' Compensation:

Huron Behavioral Health purchased commercial insurance to provide coverage of losses related to workers' compensation claims. The workers' compensation insurance provides coverage for up to a maximum of \$1,000,000 for each workers' compensation claim.

**HURON BEHAVIORAL HEALTH,
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2006 AND 2005**

NOTE 14 – RISK MANAGEMENT: (CONTINUED)

Employee Health Care:

For its risk of losses related to providing health care benefits to its employees and their dependents, the Authority established a partial self-insurance plan to cover claims for the medical costs of its employees and their dependents. The partial self-insurance plan provides coverage of up to \$595,440 of total medical care claims for the calendar year of 2006. For claims in excess of coverage of \$595,440, the Authority has purchased commercial insurance. Commercial insurance has also been purchased to provide vision and dental benefits for the employees of Huron Behavioral Health and their dependents. The following information relates to the Authority's partial self-insurance medical care plan for its employees:

	<u>2006</u>	<u>2005</u>
Partial self-insurance coverage limit	\$595,440	\$ 609,924
Medical care claims paid	634,960	824,571
Insurance reimbursements received	208,652	114,334
Annual medical care expense recognized	909,138	951,308

Managed Care Risk Contracts:

The Authority has a managed care risk contract with the State of Michigan for State General Fund Formula Funding for priority populations. The Authority self-insures the risk for this contract with an Internal Service Fund risk reserve. The State General Fund risk contract and reserve covers only the Authority's specific service area. The contract provides for the use of contract funds to establish the risk reserve that is restricted to meet future risk obligations. Expenditures from the Internal Service Fund risk reserve may occur if, in any one fiscal year, the Authority finds it necessary to expend more than its then current resources to provide contractually obligated supports and services for eligible individuals.

Contingent Liabilities:

Amounts received or receivable from federal, state and other grantor agencies are subject to audit and adjustment by the grantor. Any disallowed amounts, including amounts already collected, may constitute a liability. The amount, if any, of costs that may be disallowed cannot be determined at this time.

The Michigan Department of Community Health (MDCH) has asked the Authority to repay to the MDCH an amount which represents excess building rent paid to a "related" party from 1980 to the present time. The MDCH request is based on an accounting principle that says rent paid to a related party will be reimbursed only to the extent of the related party's underlying costs. The MDCH asserts that the rent paid by the Authority over the years is substantially more than the County's (the owner of the building) actual underlying cost. For the same reason the MDCH has stated that it will not reimburse future rent paid by the Authority to the County. The amount that the MDCH is requesting is yet to be determined.

The Authority asserts that it is a separate governmental entity from the County and therefore, does not meet the definition of a related party. The rent paid to the County would then not apply to the accounting principle asserted by the MDCH as excess rent paid to a related party. The Authority plans to vigorously contest the MDCH claim for reimbursement. An estimate of the outcome of this dispute with the MDCH cannot be made at this time.

**HURON BEHAVIORAL HEALTH,
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2006 AND 2005**

NOTE 15 – TRANSFERS BETWEEN FUNDS:

The Authority transferred \$16,999 from the Internal Service Fund risk reserve to the General Fund during the fiscal year. The transfer is in accordance with the criteria established by the Michigan Department of Community Health to meet risk corridor requirements of the managed care specialty supports and services program contracts.

NOTE 16 – SUBSEQUENT EVENT:

In October 2006, the Authority paid \$1,068,500 to the Michigan Municipal Employees Retirement System to prefund a portion of the actuarial liability for post-employment retiree health care costs in accordance with GASB Statement 45.

REQUIRED SUPPLEMENTAL INFORMATION

**HURON BEHAVIORAL HEALTH,
HURON COUNTY, MICHIGAN**

**GOVERNMENT-WIDE
STATEMENT OF ACTIVITIES - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

	ORIGINAL	FINAL	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES:				
State grants				
State General Fund DCH contract	\$ 954,237	\$ 1,069,517	\$ 1,069,517	\$ -
Adult Benefit Waiver capitation	117,111	112,506	112,809	303
MiChild capitation	6,653	6,836	6,804	(32)
Title XX replacement	6,118	6,118	6,118	-
Other state grants	16,652	16,897	16,652	(245)
Total state grants	1,100,771	1,211,874	1,211,900	26
Federal grants				
Federal block grants	29,503	29,503	29,503	-
PAS / ARR grant	84,994	84,995	83,885	(1,110)
Total federal grants	114,497	114,498	113,388	(1,110)
Contributions - local units				
County appropriation	193,250	193,250	193,250	
Senior grant	35,000	35,000	35,000	-
Total contributions - local units	228,250	228,250	228,250	-
Charges for services				
Medicaid specialty managed care capitation	6,092,232	6,472,232	7,007,232	535,000
Medicaid fee for service	69,079	62,733	65,271	2,538
Earned contracts	89,900	84,267	85,036	769
Client and third party payors	569,147	515,002	546,508	31,506
Total charges for services	6,820,358	7,134,234	7,704,047	569,813
Interest income	143,548	164,416	172,207	7,791
Other revenue	3,584	4,351	4,768	417
TOTAL REVENUES	8,411,008	8,857,623	9,434,562	576,939
EXPENSES:				
Health & Welfare - Mental Health				
Contractual providers	1,396,788	1,555,469	1,483,502	71,967
Program Operations	5,484,771	5,701,662	6,197,203	(495,541)
Managed Care Administration	169,964	140,250	164,752	(24,502)
General & Board Administration	1,042,537	980,210	1,161,228	(181,018)
Local Funds Contribution	168,799	168,799	168,799	
Interest Expense		2,888	2,888	
Depreciation	71,552	78,174	76,143	2,031
TOTAL EXPENSES	8,334,411	8,627,452	9,254,516	(627,063)
CHANGE IN NET ASSETS	\$ 76,597	\$ 230,171	\$ 180,045	\$ (50,124)

**HURON BEHAVIORAL HEALTH,
HURON COUNTY, MICHIGAN**

SEPTEMBER 30, 2006

**REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Funding Progress for HBPHP**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) – Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll ©	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/04	\$0	\$5,547,589	\$5,547,589	0%	\$1,763,106	314.7%

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Members of the Board
Huron Behavioral Health
Bad Axe, Michigan 48413

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Huron Behavioral Health, as of and for the year ended September 30, 2006, which collectively comprise Huron Behavioral Health's basic financial statements and have issued our report thereon dated January 12, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Huron Behavioral Health's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Huron Behavioral Health's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Nietzke + Faupel, PC

NIETZKE & FAUPEL, P.C.
PIGEON, MICHIGAN

January 12, 2007

To the Members of the Board
Huron Behavioral Health
Bad Axe, Michigan 48413

The following comments relate to situations brought to our attention during the course of our recent audit of the financial statements of Huron Behavioral Health for the year ended September 30, 2006 and are submitted for your evaluation and consideration. We would like to emphasize that our audit was conducted for the purpose of expressing opinions on the aforementioned financial statements; therefore, the following comments are not necessarily all inclusive.

EXPENDITURES IN EXCESS OF APPROPRIATIONS

The Authority's budget for the 2005-2006 fiscal year was prepared in accordance with P.A. #621 with the following exceptions.

The Act provides that a local unit of government shall not incur expenditures in excess of the amount budgeted. During the year ended September 30, 2006, the Authority incurred expenditures in certain budgetary funds which were in excess of the amounts budgeted as follows:

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
Program operations	\$5,701,662	\$6,197,203	\$(495,541)
Managed care administration	140,250	164,752	(24,502)
General & board administration	980,210	1,161,228	(181,018)

The primary reason for the budget variances was the expense related to the Authority's post employment benefit costs due to the decision to adopt GASB 45 after the final budget was approved for the year. The post employment benefit expense recognized for the year ended September 30, 2006 was based on an actuarial study performed in 2004 and amounted to \$601,543.

SERVICE PROVIDER GUIDELINES

During our audit, we noted that the bank accounts used for providing services to a group of the Authority's consumers did not reconcile to the accounting records. We discovered that the transactions for the bank accounts are processed by a third-party service provider. From the information provided by the service provider, we noted certain situations that made the reconciliation to the accounting records more difficult. Therefore, we suggest that management establish guidelines for the services and reports prepared by the third-party service provider. The guidelines should include 1) the establishment of regular payroll periods for all consumers processed, 2) reconciliations between the various reports processed should be provided, and 3) regular monthly cut-off should be maintained for all reports processed. We believe that the establishment of the service guidelines will help to provide the proper reconciliations to your accounting records and help to strengthen the controls over the transactions being processed by the third-party service provider.

We noted that management has had a meeting with the service provider to discuss and implement the above recommendations.

The above recommendations are being made in an effort to improve the Authority's system of record keeping and to aid the Authority in conforming to State requirements. Each of the items noted above were discussed with the Authority's management. If you have any questions regarding these recommendations, please contact us.

Nietzke & Faupel, PC

Nietzke & Faupel, P.C.
Pigeon, Michigan

January 12, 2007